Feasibility Study P.L. 480 Mechanism Contributing to Environmental Sector Sustainable Finance

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Feasibility Study
P.L. 480 Mechanism Contributing to Environmental Sector Sustainable Finance

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I. Summary

Preliminary analysis suggests that creation of a biodiversity ecotourism infrastructure trust fund with monetized P.L.480 Generations is feasible. USAID has a readily available mechanism, the Cooperating Sponsor P.L.480 TITLE II program managed by a consortium of international NGOS-CRS, ADRA, and Care, for monetizing the resources. Preliminary discussions with representatives of the Consortium indicate their willingness to participate in an expanded effort.

An alternative would be to develop a government to government program. Such programs are used by other donors (e.g., the French and the Japanese) and were used by USAID in the past. This approach would contribute to long-term Malagasy institutional capacity building. However, potential issues concerning transparency in the process of commodity monetization would have to be addressed.

The Mission also has at its disposal two options for obligating the resources. The existing P.L.480 Title II program under S02 (Smaller, Healthier Malagasy families) has $IO million "ceiling space". This space could be used to launch the biodiversity ecotourism infrastructure effort. Alternatively, a discrete food aid program could be included under a new/revised SOAG for S03-Biodiversity Conservation. Perhaps the biodiversity trust fund under the current P.L.480 program and then transferring it to new, separate program under SO) would be the most efficient way to proceed.

Combinations of P.L.480 commodities (viz., De-gummed Soy Oil -CDSO-, bulk hard wheat, and wheat flour) are available to generate the resources for the trust fund. There is sufficient demand in Madagascar for these commodities, and they would be "price competitive" with similar foodstuffs introduced through other food aid or through commercial channels. Finally, importation of these commodities, in measured quantities, would not negatively impact local production.

A five-year monetization program could generate between $20 million and $25 million for biodiversity conservation and ecotourism infrastructure purposes.

There is also a mechanism on-hand to invest the P.L.480 generations and to program the resources in favor of biodiversity activities. The Malagasy Environment Foundation (Tany Meva) was created, with substantial donor assistance, for that very purpose. The Foundation would require dedicated technical assistance regarding, the investment of the P.L.480

generations. In addition, agreement with the Cooperating Sponsors and USAID for programming the resources would require significant specificity on procedures, uses, and accountability. That said, the Foundation is an available investment/programming vehicle.

A second possibility would be to create a second private, environment foundation. Such an initiative could introduce an element of competition into the "sustainable finance trust fund market"; a move that could enhance the operational efficiency of Tany Meva.

II. Background

The objective of the IRG EPIQ IQC Task Order in Madagascar is to assist the Mission, and its Malagasy counterparts, to realize an established Strategic Objective-viz., the conservation of biologically diverse ecosystems in priority conservation zones: the Fianarantsoa Administration Region; the Andasibe/Mantadia-Zahamena Corridor; the Mahajanga-Bealanana Landscape; the Northern Ecological Zone; and the Southeast Ecological Zone. It is anticipated that this objective will be achieved through a linked set of activities related to two USAID/Madagascar Intermediate Results: (1) application of environmental policies, legislation, and procedures; and (2) design and mobilization of sustainable financing mechanisms. The "policy" Intermediate Result refers to the creation of a framework composed of a set laws and regulations, complemented institutions capable of implementing rational programs that will simultaneously protect the country's natural patrimony and promote sustainable economic growth. The " sustainable finance" Intermediate Objective is concerned directly with generating and effectively managing the money needed by a series of organizations, many of which are not-for-profit institutions and local government entities, charged with providing the services required to protect and manage Madagascar's natural resources.

The following report considers the feasibility of using local currencies generated from monetized P.L.480 commodities to create a steady source of long-term financing, viz., **a trust fund,** for biodiversity conservation activities and support rehabilitation of infrastructure in priority protected area ecological regions of Madagascar. If feasible, consideration will also be given to structuring the trust fund in fashion that other related activities in the environmental sector (e.g., promotion of exports from "green" enterprises) could be included at a later date.

A P.L. 480 generated trust fund would be a first step in developing a comprehensive revenue generation and management mechanism to finance, in a sustainable way, biodiversity protection activities. This feasibility analysis is based on: (1) demand for sustainable biodiversity conservation ecotourism infrastructure rehabilitation financing; (2) a suitable monetization vehicle; (3) availability of P.L.480 commodities and the demand for such commodities in Madagascar; and (4) presence of an adequate resource generation/investment/programming mechanism.

III. Environmental Services/Biodiversity Protection Financing Requirements (The Demand)

With international donor support, the Government of Madagascar (GOM) is in the process of structurally adjusting its economy. This comprehensive effort to move from a centrally planned, command economy to one governed by the free play of market forces includes a revamping of the country's fiscal policy. Key features of the reforms in this arena include a downsizing (at least a freeze on growth) of government organizations, emphasis on policy formulation and regulation as the appropriate roles for public sector entities, and increased reliance on private groups (NGOs and local community organizations) for program implementation.

In response to this adjustment process, in the environmental sector, as well as in other sectors, the delivery of biodiversity protection services is being carried out increasingly, by NGOs and local community groups. Currently, there are approximately 40, most of which are Malagasy, NGOs actively engaged in the environmental sector in Madagascar. They range from relatively large entities such as ANGAP, the national parks administration agency, and ONE, Madagascar's environmental protection agency and the coordinating body of donor supported Environmental Program (EP II), with yearly budgets of several million dollars, to moderate-sized organizations (e.g., MIKAJY in Mahajanga and MITIA in Tamatave) capable of implementing donor-supported programs valued at several thousands of dollars, to start-up NGOs with modest capabilities and programs. The number of community groups engaged in the environmental sector is not readily available, but this universe is growing.

The current funding level of PE II, excluding GOM contributions, is $30 million per annum. It is estimated that, discounting monies dedicated to procurement of national and international technical assistance, approximately one-third ($10 million) of the total is directed to the program and the operating expenses of NGOs and community level organizations engaged in biodiversity conservation activities. It is assumed that this level of effort by the NGOs and the community groups will be needed into the indefinite future. These organizations do not have access to Malagasy national treasury to finance their programs. Accordingly, the estimated cost of their services ($10 million without inflation) represents a large part of the projected annual environmental sector sustainable finance demand.

Rehabilitation of secondary roads located near Madagascar's priority biological diversity protected areas and the construction of "ecotourism infrastructure"' represent a second of

activity in need of financing through a mechanism such as a P.L.480 trust fund. Rural road rehabilitation and maintenance would facilitate farmer access to markets Improved market access would, in turn, increase farmer income and reduce pressure on protected areas from small producer expansion to new planting areas. Moreover, rural road upgrading would promote an increased volume of ecotourism (e.g. ease access to conservation parks). Construction of park facilities (e.g., welcome centers, rest rooms, artisan kiosks, and snack bars) would also serve to attract more tourists. The money generated by the increase in tourism (e.g., via park entrance fees, sale of handicrafts) could, in turn, be used to help underwrite the cost biodiversity protection programs (e.g., ANGAP park management). An increase in ecotourism would also help stimulate local economic growth.

Taking the USAID/Madagascar rural roads CAP Project as a point of reference, and using the labor-intensive technologies developed under the CAP initiative, the cost of secondary route rehabilitation would range from $20K to $25K/kilometer. During, its five-year life, CAP rehabilitated approximately 450 kilometers of roads in four distinct geographic regions of the country. In addition to road construction, a significant of time and effort under CAP was dedicated to institution building and the introduction of labor intensive technologies in the construction sector. Given that these elements are now in place, it is estimated that 500 kilometers of secondary roads (I 00 kilometers for each of the five priority areas) could be rehabilitated over a seven-year period. Construction/rehabilitation costs for an effort of this magnitude would be between $20 and $25 million dollars. Road maintenance costs, in accordance with the CAP 80 percent self-financing maintenance program, would require an additional $500K.

Initial estimates for other Eco-tourism related infrastructure (e.g., park welcome/interpretation centers, handicraft kiosks etc.) are $1 million with an additional $250K in maintenance costs.

The total amount needed for 500 kilometers and related ecotourism infrastructure is estimated at between $22--$27 million. Adding the $10 million required for biodiversity protection programs suggests a total requirement of $32--$37 million. Calculating a modest 10 percent annual return on investment (an average for trust funds) capital of $320--$370 million would be needed. To be sure, road construction, approximately two-thirds of the estimated “finance demand”, is a one-time cost and not a recurrent expense.

If the cost of road construction proper were addressed through a separate, dedicated, donor-financed project the sustainable finance requirement for biodiversity and rural infrastructure

would be in the $11--$12 million range. An endowment of $110--$120 million would be needed to generate the required sum.

These data clearly demonstrate two critical points: (1) that there is sufficient demand, as defined by the need for financial resources, to justify consideration of a monetized P.L.480 initiative, and (2) that a P.L.480 effort, in and of itself, could not generate the needed money. Rather, a P.L.480 Trust Fund would be only one tool in a multifaceted program to meet environmental sector sustainable finance requirements.

IV. Monetization

Judging the feasibility of P.L.480 monetization, in the context of creating a biodiversity protection infrastructure trust fund must include consideration of a vehicle for obligating the resources; a commodity marketing mechanism(s); and availability of suitable commodities. The following discussion argues that these conditions do prevail and that P.L.480 monetization is indeed "doable".

Resource Monetization Vehicle

On this point, there are two available options. The first would be to develop a government to government food aid program with the Government of Madagascar (GOM). The second would be to carryout the monetization activities through intermediaries, viz., International Cooperating Sponsor NGOS.

Government to Government Option

Several bilateral donors (e.g., the French and the Japanese) have agreements with the Government of Madagascar (GOM) to manage food aid programs. Under these arrangements, the Ministry of Finance (MOF) handles the sale of the commodities and subsequently programs the money generated in accordance with the specific requirements of each discreet donor agreement. (Additional detail on the programming of resources under the government to government approach will be addressed below in the discussion of “Programming Alternatives”). In the past, USAID/Madagascar also used this model. However, in the mid-1990's amid concerns about government transparency and efficiency the Mission opted for an alternative mechanism.

The government to government model could be a viable way to monetize the sales’ proceeds. To chose this route would, however, require design, negotiation and implementation of series of "check-and-balance" mechanisms. A transparent system (e.g., closed-bid/publicly-opened auctions) for commodity monetization would be required. There would also be a need to establish the destination of the proceeds (e.g., local banks and/or purchase of government bonds) and devise a system (e.g., periodic audits) to assure proper transfer of the resources.

In Phase II of this exercise, a full analysis will be carried out of the viability of the government to government option. The analysis will center on the “trade-off” between long-term Malagasy capacity building and the effort required to design, implement and monitor such a program. The

exercise will also include a calculation of the probabilities of realizing the required levels of transparency and efficiency.

International Cooperating Sponsor Option

USAID/Madagascar has an active Cooperating Sponsor food assistance program. Launched in 1998, it is a five-year, P.L.480 Title II effort managed by a consortium of international NGOs; ADRA, CRS and CARE. The program consists of both food distribution and commodity monetization. CRS distributes about 20 percent of the foodstuffs imported under the program to support its maternal-child health efforts. The rest of the commodity imports are monetized. The local currency generated from the sale of the commodities is used by the three partners to carryout a range of program activities including natural resource management and sustainable agricultural production.

The Consortium has acquired considerable knowledge of the local food commodity market and has developed models (e.g., transparent, public advertising of commonly availability, and direct negotiation via written bid with potential buyers) for the sale of the foodstuffs. The partners have worked closely with Malagasy banking, sector to design “tools" (e.g., letters of credit and bank guarantees for local currency purchases) to facilitate commodity purchases.

Each Consortium member has designed, vetted with USAID and received Agency approval, of Development Activity Proposals (DAPS) for the Title II program. These documents clearly describe the activities to be carried out, the cost of the interventions, and the way in which they will be managed. In addition, each DAP has detail on program outputs and they relationship of these outputs to USAID/Madagascar Intermediate Results and Strategic Objectives.

Preliminary discussions with Consortium representatives regarding the possibility of an amendment to their program to include a biodiversity ecotourism infrastructure trust fund component evoked a strong positive response. Details of their involvement (e.g., requirement to amend existing DAPS, management responsibility, eligibility to participate in activities carried out under the trust fund) in this initiative must be defined. It will be necessary also to specify the mechanism (e.g., grant, cooperative, trust agreement) to transfer the generations from the Consortium to an entity that would invest and program them. It will also be important to clearly define the Mission's role in this transaction. Additional costs associated with their management of commodity monetization must be determined and negotiated. However, they express a willingness to participate.

If it were not possible to successfully negotiate an arrangement with the ADRA, CRS, CARE Consortium to include a biodiversity trust fund component in its present program, the Cooperating Sponsor Intermediary model could still be used. In this case, the Mission could consider negotiating a separate arrangement with one of the Cooperating Sponsors in country, or seek out a new international NGO to serve as the "monetization intermediary".

Program Obligation Vehicle

With respect to program (funds) obligation vehicle, USAID/Madagascar also has two options. The Strategic Objective Agreement (SOAG) for the Mission's S02 (Smaller, Healthier Families) includes a $54 million Title II food aid component (the mechanism under which the Cooperating Sponsors are operating). Current commitment levels under the food aid program stand at $44 million-leaving a $10 million "space" under the ceiling that could be used to launch the biodiversity ecotourism infrastructure trust fund.

This option would entail minimal " additional work burden" for the Mission and would require negotiation with government of only a minor amendment to an existing program. The drawbacks of this approach are that available "ceiling space" (i.e., $10 million) would not be a sufficient amount for capitalizing the trust fund. In addition, the current P.L.480 program in the S02 SOAG has a completion date of 2002. The biodiversity ecotourism infrastructure trust fund would be a multi-year task that could not begin before FY2002. Both the "ceiling" and the completion date issues would require amendments to the existing SOAG) to accommodate the biodiversity initiative.

Finally, there is the question of internal Mission "cross-programming". The biodiversity trust fund would be an activity contributing, to SO') (Conservation of Unique Biological Diversity) which is managed by the Mission's Natural Resources Office. Creating the trust fund through an amendment to the current food aid program under S02 (Smaller, Healthier Families) would place it in the purview of the Mission's Health and Family Planning Office. While not a major issue, the cross programming entailed by this option could add to the Mission's "results tracking and reporting" work load.

The alternative would be to amend the existing, SOAG3 to include a monetized P.L.480 component. While this could require a more extensive negotiation with the government than would a minor addition to current food aid program under S02, the issues regarding with "ceiling space and longevity" would be eliminated. In addition, internal USAID/Madagascar program responsibility and "reporting lines" would be kept clear.

Perhaps starting the biodiversity trust fund under the existing P.L.480 program and then transferring it to a new, dedicated activity under a new/revised SOAG) would be the most practical approach.

Commodity Availability

The universe of commodities available through P.L.480 mechanisms includes rice, degummed soybean oil (CDSO), corn, lentils, dairy products, sugar, wheat and wheat flour. Under the existing Title 11 program in Madagascar the Consortium of Cooperating Sponsors have focused, to date, on the importation of one commodity, CDSO, for monetization purposes. Beginning with 3600 metric tons (dollar value of $2.3 million) in 1998, importation levels have increased to 9,500 metric tons (estimated dollar value of $4.5 million) for FY 20000. CDSO importation projections for the balance of the five-year program are at about 6,000 metric tons per annum.

The estimated yearly consumption of cooking, oil in Madagascar is on the order of 30,000 metric tons. While once an important part of the economy, the domestic oil production industry (principally peanut and cottonseed oil) has fallen into serious decline. Current domestic production levels average about 2,000 metric tons per annum. The balance of the consumption demand is addressed, in part, though commercial imports-- palm oil from the Philippines and CDSO from Argentina and through various food-aid programs.

P.L.480 CDSO is "price competitive" with other sources of oil imports. To illustrate, the landed cost of bulk U.S. source CDSO is $445.00/metric ton. The landed cost of Argentine CDSO is calculated at $470.00 per metric ton. While the cost of palm oil has declined recently, imports from the Philippines are still in excess of $500.00 per metric ton.

What these data suggest is that it would be feasible to increase the importation amount of CSO under the current P.L.480 Title II program to launch a biodiversity/rural infrastructure trust fund. An increase of 3,000 metric tons in 2002, the projected initial year of the trust fund, could generate $2-$3 million per annum. Such an increase would raise the CDSO Title II imports back to the FY 2000 levels of 9,000-9,500 metric tons-- a figure well within the 30,000 metric ton per annum consumption level. The tonnage increase would not do violence to the domestic oil seed production industry. Given that the 9,000 metric ton level of FY 2000 does not appear to be depressing local production, it is unlikely that a similar import level beginning in FY 2002 will have a negative impact. Finally, P.L.480 CDSO prices are competitive with similar commodities imported under other food aid and/or through commercial channels.

In general the physical infrastructure exists to handle an increase in CDSO tonnage. However, there is a potential marketing constraint. Only one Malagasy company, Tiko, has the infrastructure to process bulk CDSO. While the Cooperating Sponsor Consortium has successfully negotiated CDSO agreements with Tiko in the past, the danger is present that the company's monopoly position could distort market transactions in the future.

A possible remedy would be to require that a portion of the CDSO be delivered in barrels. A number of Malagasy importers have the capacity to handle the commodity in this form. A second (in addition to the bulk sale to Tiko) CDSO transaction would introduce an element of competition to counteract distortions that might come about from. a "one buyer" monopoly.

Table 1 Cost Data Bulk CDSO

Costs	**Argentina CDSO CIF**	**US CDSO CF**	**US CDSO 80% of CF**
Commodity Cost FOB (US $ MT)	$420.00	$390.00	$312.00
Maritime Costs **US $MT**	$50.00	$55.00	$44.00
Total Landed Costs	$470.00	$445.00	$356.00

Information Sources:
1. Mr. Chi Kam -
2. CRS/NY Shipping-
3. CRS/Madagascar

The addition of other commodities to the current P.L.480 Title II program could help meet the needs for launching a biodiversity-rural infrastructure trust fund. Preliminary analysis suggests that bulk wheat and wheat flour would satisfy the necessary conditions (e.g., local demand, price competitiveness and non-disruption of domestic production) for importation and, accordingly, could be appropriate complements to CDSO.

The wheat market in Madagascar is defined principally by the bakery industry-bread (baguettes) for urban consumers. Estimates of annual bakery industry demand for wheat range from 100,000 to 110,000 metric tons. This demand is rising as the country continues to become more "urbanized" and "store-made" bread gains in proportion to "home-made" rice as a dietary staple.

Yearly domestic wheat production is around 10,000 metric tons-- all of which is a "soft" variety. Recipes for local baguette production require" soft" wheat (25 percent) "hard" wheat (75 percent) formula. Currently, the "hard" wheat requirements are being met mainly through commercial imports from Germany (almost 78,000 metric tons in 1998 divided between bulk

wheat and wheat flour) complemented by some European Community (200 metric tons in 1999), Cooperation Francaise (700 metric tons, divided between bulk product and flour, in 1999, and World Food Program (3,600 metric tons in 1999) food aid.

The price competitiveness of P.L.480 wheat is not as definitive as is the case for CDSO. The landed cost for German hard wheat is $155.00 per metric ton. A similar price is calculated for Argentine hard wheat. The landed cost for U.S hard wheat is about *$3*5.00 per metric ton higher. However, if the P.L.480 "80 percent benchmark rule" (i.e., the landed cost of a commodity can be reduced up to 20 percent of production and shipping value) U.S bulk wheat costs are reduced to a very competitive $151.00 metric ton.

Wheat flour is another possibility. The landed cost of U.S. hard wheat flour is$310.00 per metric ton. In contrast, European wheat flour placed in the Madagascar port sales for $240.00 metric ton. This said, application of the 80 percent benchmark rule could reduce the cost of P.L.480 wheat flour to a competitive price of $248.00 per metric ton.

Of course, with respect to both commodities, the amount of local currency generated through monetization would decrease in relation to the percentage of "benchmark" that would be applied. The costs of managing the programs would, as a result, be relatively higher.

As with CDSO, monetization of bulk wheat faces a potential monopoly constraint. The wheat processing "industry" in Madagascar is dominated by a sole vendor-KOBAMA. In the past (U.S. grain millers in the early 1990's and French and German food aid programs in the mid-I990's) negotiations with KOBAMA over bulk imports have proven to be difficult. The U.S. grain millers failed in their attempt to develop a commercial wheat sale program and the Europeans claim that they were in chronically disadvantageous negotiating positions.

However, beginning in 1997 the French and German bilateral assistance food-aid changed their commodity program substituting wheat flour for a portion of the bulk wheat. As the flour required no processing, it was sold directly to wholesalers, other than KOBAMA, for placement in local bakeries. This tactic has introduced an element of competition into the wheat import market. The result is a more flexible negotiating posture on the part of KOBAMA.

In sum, it appears that there is considerable unmet and growing demand (perhaps as much as I0 thousand metric tons per annum) for wheat in the Madagascar bakery industry. The variety (hard wheat) in demand would not, if imported under a P.L.480 initiative, displace local production, which is limited to soft wheat varieties. P.L.480 wheat (bulk wheat as well as wheat flour) commodities could be "price competitive" if the "80 percent benchmark was applied.

Under the current P.L.480 program, the Cooperating Sponsors are considering the addition of bulk wheat in the "out years" of the program. The anticipated quantities are 5.5 thousand metric tons in 2001 and 3.1 thousand metric tons in 2002. It seems feasible that these levels could be increased significantly (e.g., 4 thousand metric tons per annum) by a combination of bulk wheat flour. Depending upon the product combination and negotiated benchmark prices**,** these commodities could generate at least $ 2 million annually for the biodiversity trust fund.

Table 2 Cost Data Bulk Hard Wheat

Costs	**German Wheat CIF**	**US Wheat CF**	**US Wheat 80% of CF**
Commodity Cost FOB (US $ MT)	$125.00	$122.00	$100.80
Maritime Costs **US $MT**	$30.00	$63.00	$50.40
Total Landed Costs	$155.00	$184.00	$151.00

Information Sources:

1. Mr. Laurant Rajaonarivelo – KOBAMA/Madagascar
2. U.S. Wheat Association “Weekly Price Report”
3. CRS/Madagascar

Table 3 Cost Data Wheat Flour

Costs	**European Wheat**	**US Wheat Flour**	**US Wheat Flour 80% of CF**
Commodity Cost FOB (US $ MT)	$210.00	$210.00	$168.00
Maritime Costs **US $MT**	$30.00	$137.00	$80.00
Total Landed Costs	$240.00	$310.00	$248.40

Information Sources:
1. Mr. Laurent Rajaonarivelo - KOBAMA/Madagascar
2. U.S. Wheat Associates "Weekly Price Report"
3. CRS/Madagascar

Projected Generations

This initial review suggests that a monetized P.L.480 program to support a biodiversity trust fund is feasible. The program, through a combination of commodities (viz., CDSO and bulk wheat and wheat flour) could generate $4.5 million to $5 million annually. If designed as a multi-year (five years) effort, total generations could exceed $20 million.

Investment/Programming Vehicle

Tany Meva, the Malagasy Environmental Foundation, represents a possible alternative for managing (investing and programming) the resources that would be generated through a monetization program. Tany Meva was founded in 1997 for the expressed purpose of supporting non-public sector (NGOs and local community organizations) interventions in the environmental sector. The Foundation is governed by a Board of Directors made up of prominent Malagasy citizens, representatives of international donor organizations (e.g., USAID), and officials of international environmental NGOs (e.g., African Wildlife Foundation). A small (nine person) staff headed by an executive director carry out daily operations.

The Foundation's initial capitalization was a $I2 million equivalent in Malagasy Francs endowment. These monies were assigned to: (1) pay for the Foundation's core operating expenses; (2) finance environmental projects; and (3) serve as investment capital to increase the Tany Meva's "resource pool".

To date, Tany Meva has employed an extremely conservative investment policy. Early investments were limited to purchase of GOM bonds and cash placements in interest bearing accounts in the Malagasy commercial banking system. The performance of these "financial instruments" has been tepid at best and there is some indication that they may have contributed to erosion of the Foundation's initial capitalization level.

In a move to shore up its capital position, Tany Meva recently diversified its portfolio by investing $2 million in an U.S. money market fund managed by the Vanguard Investment Group. The "placement" with Vanguard is Generating a 4 percent return on investment. While these earnings are stabilizing Tany Meva's finances, the money market transaction with Vanguard still represents an extremely conservative investment policy.

The Foundation has developed a track record in supporting environmental sector initiatives. In a short (three years) period of time, Tany Meva has awarded more than 90 grants to local NGOs and community organizations. These investments are addressing a wide range of issues (e.g., environmental education through local schools and community folklore presentations, natural resources initiatives, and urban environmental improvement efforts). Most of the grants are for small amounts of money--$I0K to $30K. They are awarded through a competitive process of proposal presentation and review. All of the awards that are made include stipulations of "project" activities, financial management, and anticipated results. Tany Meva staff monitors progress of the grants once they are awarded.

Tany Meva certainly represents an available instrument in which to place a biodiversity trust fund and through which to program the fund's resources. The necessary arrangements could be made through the creation of a dedicated "sub-account" within the Tany Meva portfolio transferred via a grant, cooperative agreement or trust arrangement from the Cooperating Sponsors. (the Foundation has recently established such a mechanism relative to a grant from MIRAY). And, in preliminary discussions with Tany Meva about the possibility of a trust fund placement, the Foundation's leadership expressed interest in the possibility.

However, caution is in order and this possibility must be approached with sober appreciation of the institution's operational capacity. Negotiations on creation of the biodiversity ecotourism infrastructure trust fund must specify how the P.L.480 generations that will serve as the funds capital will be managed. Particularly, clear understanding must be reached on where the money will be invested and through what type of instruments (there will be a clear need for a more aggressive investment strategy than that which the Foundation currently follows).

There will also be a need for precise agreement of the programming of biodiversity trust fund money. Particular attention will have to be given to developing a specific "grants award" system for these resources. This system must include, inter alia, a transparent competition process, award eligibility criteria, detail on proposal content requirements, acceptable financial management procedures, and a "project" monitoring plan.

It could prove to be advisable that Tany Meva, if it was to play a role in biodiversity trust fund, be provided with dedicated technical assistance to help the institution effectively carryout its responsibilities. Consideration could also be given to having the technical assistance, with USAID/Madagascar support, play an active role in the management of the fund. Such technical assistance could help Tany Meva consolidate on its early progress and mature into a first-rate environmental sector financing entity. With such maturation, the Foundation could play key, needed role in assuring the sector's long-term, sustainable financing.

An alternative to Tany Meva would be to create a second private foundation to facilitate founding for biodiversity activity in the country. Developing a second foundation could introduce an element of competition, hence enhanced productivity, into the private environmental fund raising arena. Such competition could, in turn, induce Tany Meva to become more proactive in its resource generation efforts and, perhaps more selective in its funding decisions.

In deciding upon the “Second Foundation” option, consideration must be given to the “Malagasy Market”. Is the environmental fund raising sector in Madagascar large enough to sustain two private foundations? Concern must also be paid to the time required to establish a second entity. A minimum of two to three years would be required to launch a second foundation. Would the trade-off of a potential increase in fund raising and resource programming offset the time, energy and money required to start a second foundation? This will be a critical question for the Mission to consider when designing the P.L. 480 biodiversity trust fund.

A third option would be to program the P.L. 480 generations through the public sector (viz., the Ministry of Finance--MOF). Precedent for such an approach exists. As noted above, several bilateral donors have agreements with the MOF to manage food aid monetization programs. With regard to the programming of the money generated through commodity sales, these initiatives call for the MOF to deposit the proceeds into interest bearing accounts in the local banking system. Each donor –sponsored program is treated as a discreet item (sub-project account) in the GOM investment budget. Monies are disbursed from the sub-project accounts to support activities as specified in the particular agreements between each donor and the

Government. Procedures for the disbursement and accountability of funds are also "donor specific" and subject to negotiations between the GOM and each donor.

While this government-to-government approach would contribute to long-term Malagasy capacity building, several factors must be taken into account in deciding if it is the most appropriate route to follow. First, a mechanism (e.g., a joint USAID/GOM/ONG committee) would have to be developed to decide upon program priorities ("what is funded and at what level"?). This, in turn, would require the creation and broad publication of transparent funding criteria. Second, there would be the need for transparent procedures (e.g., countersigned USAID/GOM Implementation Letters) to transfer the funds from the MOF to the implementing organizations (viz., NGOs and local community groups). Third, a mechanism to audit the financial management of the program and to carryout end-use checks (e.g., a contract with a private audit firm) would needed. In the aggregate, these "implementation tools" could present a significant management burden to USAID/Madagascar.

Investment capability of the GOM is an added concern to programming the money through the public sector. The only vehicle(s) available to the MOF for investing is placement of commodity sale proceeds in interest bearing accounts in the Malagasy banking system, and/or the purchase of government bonds. This (these) restriction could seriously constrain the ability to increase the original P.L.480 contribution. Moreover, it could put maintenance of the initial capital investment in jeopardy.

Next Steps

This study suggests that establishment of a biodiversity ecotourism trust fund with monetized P.L. 480 resources is feasible. The ingredients necessary for such an initiative (viz. commodity management vehicle, funds obligating mechanism, P.L. 480 commodity availability, and a mechanism for programming the resources, either exist or could be brought on-line. Moreover, there is clearly the need (demand) for funding to support biodiversity conservation activities.

Given that the initiative is feasible, the falling steps should be taken to bring it to fruition:

STTA to design the program (approximately 6 weeks). Discrete tasks would include:

- Develop commodity management vehicle (in country NGOs would appear to be the preferable option).

- Decide upon and specify USAID obligation mechanism (existing P.LO. 480 Program for Health SO2 or a new dedicated program for the Environmental SO3).
- Validate the commodity mix.
- Define and detail the generated resource programming mechanism (Tany Meva, a new foundation, or public sector).
- Define follow on implementation STTA needs, inter alia
  - Investment strategies
  - Proposal review and funding criteria
  - Portfolio management
  - Financial management
  - Program evaluation